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S E C R E T SECTION 01 OF 02 RPO DUBAI 000302

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SUBJECT: IRAN: WHAT'S GOOD FOR THE IRGC IS GOOD FOR IRAN

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CLASSIFIED BY: Timothy Richardson, Acting Director, Iran
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REASON: 1.4 (b), (d)

11. (C) Summary: Iranian businessmen who have experience with Iran's Islamic Revolutionary Guard Corps's (IRGC) economic activities maintained that its involvement is increasing economic inefficiencies and discouraging the private sector. They lamented that without a strong challenger and President Ahmadinejad's pledge to redistribute wealth and create jobs, in part by ceding projects to the IRGC, its growing economic dominance will not abate. Our contacts believed that IRGC companies are unassailable and were adamant that Ahmadinejad has created a new patronage network that challenges the clergy. End Summary.

THE IRGC STEPS IN

12. (S) An Iranian general manager of a company that sells oil field development software to Iranian companies recently related to IRPO the troubles his friends have faced from the IRGC. All the more surprising in this case was that they were generally respected because of their well-known persecution under the Shah and they were well connected. After the Revolution, the friends obtained jobs at an Iranian oil company but later started their own construction company, eventually leveraging their pre-revolutionary history to obtain the patronage of an ayatollah in Qom, whom he did not name. The company has received many contracts from this ayatollah, including the USD 600 million expansion of the Fatemeh Shrine in Qom. During Ahmadinejad's presidency, however, the IRGC has taken over at least two of their projects, including the shrine and a 16 km tunnel. After building 8km, the company was told by government officials that the IRGC would finish.

13. (C) Upon complaining to the President's Office about these interventions, the executives were told that the IRGC was given these projects to gain practical experience and improve their technical skills. Additionally, the practice was creating jobs and improving Iran's domestic capabilities. Asked how ceding projects to the Revolutionary Guard helps employment, the software executive claimed that the IRGC brings in friends, family, and people from local villages for some of its projects. (Note: Former Khatam-ol Anbia Deputy Director Abdolreza

Abedzadeh in a 2006 interview stated that only 10 percent of Khatam's labor is from IRGC ranks. Khatam is reportedly the IRGC's largest construction conglomerate.) Our contacts, one of whom is involved in South Pars gas field, claim that the IRGC functions more as a general contractor and farms out portions of different projects that in some cases previously were done by one company.

EXCUSING INEFFICIENCY

¶4. (C) Iranian businessmen think that by delaying project completion, raising government costs, and forcing out the private sector, the IRGC is doing more harm to the economy than good. A subcontractor to one of Khatam's projects told an IRPO contact that the organization's inefficiency and poor management consistently increased the costs and delayed project completion. The same contact told IRPO that in twice the amount of time it took his friends to complete 8 km of the water tunnel, the IRGC still has not finished the final half of the project. The government, however, does not appear to see this as a detriment. Akbar Torkan, former Deputy Minister of Petroleum and Chief Executive at Petropars and Pars Oil and Gas Company, who in June was fired for questioning the government's statistics on the oil sector, noted last year that when an Iranian contractor takes longer to complete a project, it is dismissed as part of his developing expertise.

¶5. (C) Our business contacts observe that although private and even public companies are better managed and have more skilled and efficient work forces and practices than the IRGC, sanctions are hindering the private sector's competitive advantage by

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raising their operating costs and making them less competitive. An Iranian trader based in Dubai noted that he increasingly has to do business with IRGC-affiliated companies as the private sector is diminishing and that this has forced him to suppress his prices.

¶6. (C) Our contacts' anecdotes promote a perception that the IRGC is unassailable. A general manager of an oil engineering firm last month told IRPO that Iranians think that the IRGC gets any job it wants. He claimed that this was born out in Khatam's investment in the Iran Marine Industrial Company (SADRA), whose share price tripled after the 51 percent purchase this spring. The businessman asserts that this proves that there is a view that Khatam at least enjoys near immune status from the government. (Note: In March 2005, a consortium consisting of Khatam, SADRA and Norway's Aker Kvaerner won a bid for South Pars phases 15 and 16, but the Norwegian firm pulled out in May 2005. The phases subsequently went to SADRA and Khatam, despite objections from several Majles members who wanted to re-tender the project.) Likewise, the Qom ayatollah overseeing the Fatemeh Shrine project viewed the IRGC's interference as a usurpation of his authority, but he told the software executive's friends that he could not push back against the IRGC.

COMMENT

17. (C) Ahmadinejad's populist-statist economic policies aim to redistribute wealth and the balance of power on economic decisionmaking. The anecdotes shared by IRPO contacts suggest the government believes the cession of projects to the IRGC is a means of accomplishing these goals and could explain why Ahmadinejad is so unapologetic in this regard, and why he can claim that giving the IRGC a bigger economic role is good for developing Iran's labor force. This almost patronage-like network is in effect shifting a portion of the economic balance of power and has contributed to some clerics' tensions with the government. The Qom ayatollah's inability to reverse the decision to shift projects under his patronage to the IRGC underscores the clergy's apparent reticence in challenging the IRGC and could indicate the potency of IRGC influence.

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